

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

26 September 1983

Australia: The Politics of the 1983/84 Budget [redacted]

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Summary

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Prime Minister's Hawke's handling of his government's first budget is emerging as a political victory for his administration. The 1983/84 budget is expansionary but holds the national deficit to the government's designated ceiling of \$7.5 billion. It has also temporarily placated several important interest groups including the Labor Party's left wing and organized labor. The budget victory seems certain to bolster public support for the Hawke government which has waned slightly as a result of several nettlesome issues plaguing its first six months in office.

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A "Labor" Budget

Following Hawke's warnings of fiscal austerity, the expansionary 1983/84 budget his government presented to Parliament on 23 August came as a surprise to many Australian observers. According to a variety of sources, the goal of the Labor government's financial planners was to keep the deficit from exceeding \$7.5 billion while providing as much fiscal stimulus to the economy as possible. Some members of Hawke's own cabinet criticized this ceiling, arguing for larger spending increases. Hawke, however, successfully fought off these attempts by garnering unanimous support from the state premiers

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in return for additional federal grants, according to press reports. []

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Until recently, it appeared that this ceiling on the deficit would require both spending austerity and tax increases--including possible hikes in corporate and individual income taxes. According to a recent OECD report, however, the economic outlook for later this year and for 1984 has improved significantly with the economy expected to grow by 4.5 percent and inflation slowing to 7 percent next year. We believe Hawke factored this fairly optimistic report into his budget calculations because it gave him additional options on both the expenditure and revenue side of the budget. Strong economic growth will increase tax revenues and slower inflation will hold down outlays, since over half of all Australian government spending is indexed to inflation. As a result, we believe Canberra decided it could boost spending without increasing income taxes. []

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Overall, the new budget is strongly expansionary and emphasizes spending on social programs. In line with Labor Party practice, the budget contains sharply higher outlays for social security, welfare, health, unemployment, and housing--which will push up real spending by 7.2 percent, the largest increase since the Labor budget of August 1974 (see Appendix). Canberra will help support these increases with higher revenues from excise taxes on beer, liquor, tobacco and petroleum products--all tied to the consumer price index. According to the US Embassy, indexation will save the government from announcing further increases for these unpopular taxes. []

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Despite its emphasis on social programs, the Hawke government has underscored its commitment to rebuild Australia's armed forces by increasing defense spending by 4 percent in real terms to \$4.6 billion. The largest outlay for new equipment--almost \$440 million--is earmarked for the purchase of US F/A-18 fighter-bombers. According to press reports, the increased spending reflects the political skills of Defense Minister Scholes. He battled stubbornly in the cabinet, originally asking for a 5-percent increase in the face of Treasurer Paul Keating's determination to limit the increase to 2 percent or less. In our judgment, the July ANZUS talks in Washington and recent media preoccupation with Australia's "weakened" defense capabilities in large measure contributed to Scholes' success. []

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Reaping a Political Harvest

The initial response to the budget has been favorable. Unions, for example, have given their qualified endorsement. Australian Council of Trade Unions (ACTU) President Cliff Dolan called the budget "acceptable and fair," but suggested Canberra might do more to create jobs. Union support--recently strained

because of Hawke's wage restraint policy--is critical because organized labor provides most of the Labor Party's electoral and financial support. [redacted]

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The Australian business community, long concerned about Labor Party economic policy, has also given tacit approval to Canberra's budget, according to the Australian press.² Without openly supporting the Hawke budget, business leaders have called it a "neutral statement," thus allaying fears that Hawke's economic policy will undercut prospects for recovery. In our judgment, this reaction is partly the result of Hawke's "pro-business" policies, including the extension of the Fraser government's wage freeze and selected protection from import competition. [redacted]

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The party's left wing has been critical though less stridently than had been expected by the Australian press. Left wing protest centers on the charge that the government has abandoned party policy in its "conservative approach" to the economy. Members of the left wing argued for larger spending increases targeted primarily at job programs. We believe, however, these are in large measure pro forma objections by a party minority which resents its lack of influence in the Hawke government. [redacted]

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Although Shadow Treasurer Minister Howard has criticized the budget's overreliance on the success of Hawke's wage restraint policy (correctly in our view), opposition leader Andrew Peacock has only offered what many observers of Australian politics consider weak criticism. Peacock, who has kept a particularly low political profile during the last several months, claims the budget will hit "ordinary Australians" hardest and will do little to create sorely needed jobs. On that score, Peacock argues, the government will have "failed by its own test." His charges, however, do not appear to have damaged Hawke's credibility--especially in light of the endorsements of unions and business. Ironically, Peacock's charges may have done far more to undermine

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²Australian political observers generally believe that the last Labor government--led by Gough Whitlam (1972-75)--fell as a result of fiscal irresponsibility, underscored by a nearly 50 percent increase in government spending in 1974/75. [redacted]

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his own leadership of the Liberal Party, according to the Australian press. Liberal Party supporters had hoped Peacock would use the budget as an opportunity to launch an effective campaign against the Hawke government. []

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Hawke's skillful handling of the budget apparently is improving his political standing after a series of sensitive issues shortened his "honeymoon with the press," and brought him under increasing fire from sources both in and out of the Labor Party. Strong media criticism of his government's handling of uranium mining and exports, East Timor, aid to Vietnam, the Australian-US defense relationship, leaked intelligence documents, and the scandal involving an expelled Soviet KGB agent largely overshadowed Hawke's efforts to solve Australia's serious economic problems. Some political observers in Australia began to question Hawke's ability to govern effectively and to control his sometimes unruly cabinet. As such, members of the press, the opposition, and even some Labor Party insiders concluded the budget was a major political test for Hawke and a weathervane pointing the direction his administration will take in the months to come. []

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Pitfalls Ahead

Despite generally positive reactions to the budget, Hawke faces several dangers in the months ahead:

oIf the economy fails to rebound strongly next year, the deficit will be much larger than the projected \$7.4 billion. Canberra would find it very difficult to finance a deficit of this size without increasing interest rates or intensifying inflation, which slowed to an 8.6 percent annual rate in the second quarter of 1983.

oUnemployment will probably continue to increase, even if the economy does grow strongly, according to the OECD. Rising unemployment in the face of an expansionary budget would be a particularly nettlesome problem for a Labor government which has targeted joblessness as its number one policy concern.

Australian government statistics indicate that economic recovery is already underway. For example, retail sales are up, consumer confidence is rebounding sharply, and agriculture is recovering from the severe drought. Nonetheless, the recession was deep and left unemployment at 10.2 percent in August--up nearly one percentage point since Hawke assumed office last March and up 2 percentage points in the last nine months. []

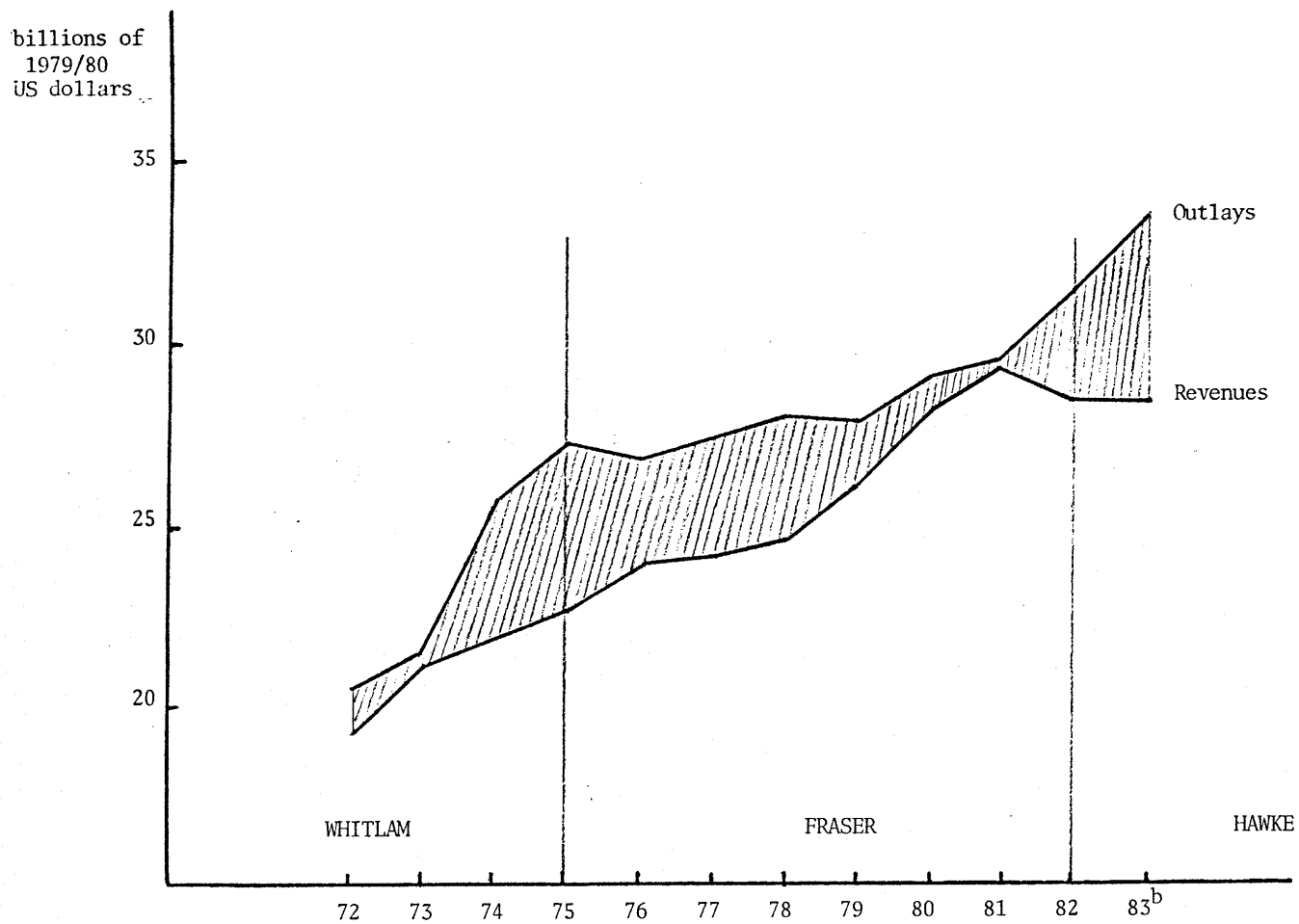
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Although we believe Canberra's budget has strengthened Hawke's credibility as a national leader, press reports suggest that he may face a further challenge maintaining his position as

party leader. According to the Australian press, the party's left wing believes that by "setting the socialist agenda aside" Hawke has abandoned party principles. Although the party as a whole is not always sympathetic to left wing criticism, even some moderate members object to Hawke's "pragmatic" approach to policymaking. Hawke has already narrowly avoided censure from the party caucus for his disregard of Labor Party policy on several sensitive issues. According to press reports, Hawke must work to convince the party as a whole that he is not only capable of managing economic policy, but that he has a clear vision of the Labor Party's wider, long-term goals. Without this, they argue, Hawke will become more vulnerable to the persistent challenges of the party's ideologically committed left wing.

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Australia: Budget Transactions, Fiscal Year 1972-83^a
(adjusted for inflation)



^a The Australian fiscal year begins on 1 July

^b Budgeted

SUBJECT: Australia: The Politics of the 1983-84 Budget

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